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Mr Morse
UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

FEB 27 1969

CIVIL DIVISION

Dear Mr. Luft:

We recently completed our annual audit of the Federal Crop Insurance Corporation (FCIC), Department of Agriculture, pursuant to the provisions of the Government Corporation Control Act (31 U.S.C. 841) and the Federal Crop Insurance Act of 1938, as amended (7 U.S.C. 1513). During the audit we noted two reserve accounts which, in our opinion, were overstated and in one instance, possibly not needed. These accounts are the Reserve for Uncollectible Debts Receivable and the Reserve for Surety Losses. Our comments on the accounts follow.

RESERVE FOR UNCOLLECTIBLE
DEBTS RECEIVABLE

At June 30, 1968, the Reserve for Uncollectible Debts Receivable had a balance of \$1,561,888, which represented the estimated uncollectible premiums due under insurance contracts for crop years 1963 through 1968. As shown in the following schedule, the portion of the Reserve for Uncollectible Debts Receivable attributable to crop years 1963, 1964, and 1965 is about \$202,000 in excess of the actual amounts still outstanding for those years.

<u>Crop year</u>	<u>Balance in reserve for uncollectible debts receivable</u>	<u>Balance in debts receivable</u>	<u>Excess in reserve account</u>
1963	\$ 218,391	\$ 162,329	\$ 56,062
1964	250,784	165,329	85,455
1965	277,141	216,584	60,557
1966	292,133	473,083	-
1967	347,747	2,227,582	-
1968	<u>175,692</u>	<u>21,204,244</u>	<u>-</u>
	<u>\$1,561,888</u>	<u>\$24,449,151</u>	<u>\$202,074</u>

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FCIC's current policy provides for a credit to the reserve account of .8 percent (8/10 of 1 percent) of the premiums earned for each crop year or an estimated collection rate of 99.20 percent. For crop years 1960 through 1965, FCIC's records show that collections of premiums earned have averaged about 99.33 percent. Moreover, for crop years 1963, 1964, and 1965, FCIC's records show collection rates of 99.39, 99.45, and 99.37 percent, respectively. Although the reserve balances attributable to crop years 1966, 1967, and 1968 listed in the above schedule are currently less than the corresponding balances in the debts receivable account, FCIC's past experience has shown that about 95 percent of debts receivable have been paid within 1 year of the close of the crop year, about 98.7 percent within 2 years, and over 99 percent within 3 years.

In view of FCIC's overall collection experience and the buildup of the excess amount in the reserve account, we believe that the .8 percent annual credit to the Reserve for Uncollectible Debts Receivable is too high.

Recommendations

We therefore recommend that FCIC review its policy for establishing the provision for estimated uncollectible debts receivable. This review should include a determination as to the reasonableness of the current annual provision of .8 percent of premiums in view of FCIC's loss experience since crop year 1960. In connection with this review, we recommend that FCIC consider adjusting the prior years' accumulated provision for estimated uncollectible debts receivable to more nearly reflect recent loss experience.

RESERVE FOR SURETY LOSSES

The Reserve for Surety Losses was established at a balance of \$25,000 in 1948 in lieu of the bonding of FCIC employees. The reserve was increased to \$75,000 during fiscal year 1954 and is currently maintained at that amount. In this account are recorded all charges for past and future unrecoverable money or property loss due to negligence or malfeasance of FCIC employees or agents, and loss due to fire, theft or other unavoidable causes. Through June 30, 1968, about \$5,600 had been charged against this account.

When a surety or related loss occurs the amount is charged to the Reserve for Surety Losses. The amount of the loss is then restored to the reserve from the administrative fund and charged to operating expenses. The effect of this procedure is to charge such losses to current operating expenses during the year in which they occur.

In view of the relatively small amount charged to this account since its establishment, we believe that it would be possible to either eliminate the account and charge applicable losses directly to the administrative fund as part of current operations or to reduce the balance of the reserve to a more reasonable amount.

Recommendations

We therefore recommend that FCIC give consideration to the elimination of the Reserve for Surety Losses and to the payment of applicable losses directly from current administrative funds. If such action is not deemed feasible, we recommend, as an alternative, that the balance in the reserve be reduced to a more reasonable amount.

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We would appreciate your comments on our conclusions and recommendations concerning these two reserve accounts. If you desire additional information we would be pleased to furnish it to you or members of your staff. Copies of this letter are being sent to the Inspector General, Department of Agriculture.

Sincerely yours,

A handwritten signature in cursive script that reads "Victor L. Lowe".

Victor L. Lowe
Associate Director

Mr. John N. Luft, Manager
Federal Crop Insurance Corporation
Department of Agriculture